



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

OFFICE OF THE ASSISTANT SECRETARY

7 SEP 1999

MEMORANDUM FOR SEE DISTRIBUTION

FROM: SAF/IAX
1080 Air Force Pentagon
Washington, DC 20330-1080

SUBJECT: Quality Control of Letter of Offer and Acceptance (LOA) Documents (DSCA Memorandum I:010365/99, 18 August 1999) (IAX 99021)

In accordance with SAMM, paragraph 70102.D, DSCA is beginning to review all versions of LOA documents prior to countersignature for 'mathematical and factual integrity, and completeness'. As such, SAF/IAX provides the following guidelines for LOA document quality control:

a. Military Articles and Services List (MASL) line and MASL text description. The text for these items must match and be consistent with the DSCA 1200 system entry. DSCA Memorandum I:08186/99 provides details on this issue.

b. MASL Descriptions. The MASL should accurately describe what is being sold. Should it be discovered that the MASL utilized on the LOA is incorrect, a modification should be accomplished whenever the error is discovered.

c. Notes and Supplemental Conditions. The following areas are addressed:

- (1) Careful review must be taken to ensure that all previous references to a specific Supplemental Condition are changed to reflect the appropriate Note reference.
- (2) Notes shall not reiterate the Standard Terms and Conditions of the LOA. Notes should only provide additional information or approved deviations to the Standard Terms and Conditions.
- (3) Notes must be germane to the articles or services being provided via the LOA document. A review should be accomplished to ensure the Notes correspond to the articles and/or services being sold.
- (4) When any LOA document is processed using converted CMCS data, all Supplemental Conditions must be re-formatted and titled as a Note(s).
- (5) "Supplemental Condition" is no longer valid terminology. The correct terminology for use on all documents is Note(s).

d. Estimated Closure Date. Please ensure that an estimated case closure date is included in all LOA documents in accordance with the SAMM, paragraph 130503.B. This Note must be last in the Note sequence. When processing an amendment or modification and the life of the case is extended, the assigned closure date must also be extended to properly reflect the case extension.

e. Foreign Military Financing (FMS). For cases utilizing, DSAMS Reference Note: **FMF** must be included in all LOA documents to fulfill the SAMM, paragraph 70105.K. requirement. This Note has been created and is available to all document preparation organizations for use. Exclusion of this Note will result in a DSCA rejection.

f. 2.5% Administrative Fee. By now, each of the document preparation organizations should have completed the necessary LOA modifications to adjust the administrative surcharge rate in accordance with DSCA Memorandum I:08440/99, 28 June 1999. Therefore, a statement is no longer valid in the preamble of the LOA signifying that an adjustment is being made to the 2.5% administrative surcharge rate. This information should be provided in a Note called 'SURCHARGES'. This Note must include information necessary to disclose all applicable surcharge information as outlined below:

- a. Block (9) includes a PC+H ~~sur~~charge applicable to lines 001-004, 009, and 034.
- b. Block (10) includes an administrative ~~sur~~charge of 2.5% applicable to lines 019 and 020, and an administrative surcharge of 3% applicable to lines 001-018.
- c. Block (11) includes a transportation ~~sur~~charge applicable to lines 007 and 009.

g. Offer Expiration Dates (OED). The SAMM, paragraph 70104.B. stipulates an 85-day OED for LOAs and Amendments. The only exceptions are Saudi Arabia, Indonesia, Philippines, Italy, Portugal, Korea, Egypt, Germany, Greece, Israel, Morocco, Pakistan, Spain, Yemen, and Turkey. They have received country-level exceptions from DSCA. The OED must be entered in DSAMS and generated on all DSAMS final response documents. Stamped dates will not be used on any final response document. 15 days for internal USAF review and coordination can be added to the appropriate country-level OED.

h. Short OED. When a short OED is assigned to a document, a reason must be provided in the preamble of the document. The following format must be utilized:

“Less than normal expiration date is due to/required for _____.”

i. Concurrent Documents. Only concurrent modifications are authorized by the SAMM (Saudi Arabia has a formal exception with DSCA to allow the processing of other concurrent documents). The following language must be used in the preamble on all modifications:

Decreasing Case: "This modification is for transferring funds between cases. Pursuant to Purchaser's reference, and paragraph 80403.B.3. of the SAMM, case value of \$ _____ is hereby transferred to FMS Case _____(NO)."

Increasing Case: "This modification is for transferring funds between cases. Pursuant to Purchaser's reference, and paragraph 80403.B.3. of the SAMM, case value of \$ _____ is hereby transferred from FMS Case _____(NO)."

j. Multiple Funding Sources. When a case contains multiple funding sources, it is important to ensure that every line contains the appropriate and correlating type of assistance (TA) code. DSAMS allows the use of multiple TA codes where necessary and appropriate. When FMF and/or MAP are used in combination with other types of funding, ensure the dollar values are populated accordingly on page 1 of the document.

k. Offer release code (ORC) and delivery term code (DTC). These codes must be entered on any document when materials are being provided to the customer. This is an USAF mandatory entry field when material is involved. Conversely, an ORC and DTC must not be entered on service lines. When a line contains a combination of services and material, sublines must be utilized, when feasible and practical, to identify the material value and the service value applicable to a line. An ORC and DTC must only be entered on the material subline.

l. Document Preamble. When developing any type of LOA document, the preamble must state specifically the action being accomplished. The preamble should reflect the essence of the sale - the customer or other readers must be able to glean an 'overview' of the document from the preamble. On modifications and amendments, for example, include line numbers affected when increasing or decreasing values; list Note titles ("SURCHARGES", "LINE ITEM DESCRIPTION") being affected; provide a description of articles or services being added. In addition to the action being taken, you must include a reason(s) for those actions.

m. Program Management Lines. Effective immediately, all program management line item descriptions must include a brief synopsis of the efforts to be performed or services reimbursed. DSCA will be 'spot checking' documents and is requiring more than a reiteration stating the line is for program management. All program management lines must utilize Generic Code and MASL:

(R6B) 076200PR0GMGT

When pricing Program Management lines, all Line Managers must utilize - to the fullest extent - the personnel pricing calculations within the Line Price Estimation tab. This capability allows the Line Manager to price civilian and military salaries, to include escalation factors, as well as, travel requirements. If additional DSAMS pricing training is required, please contact your MAJCOM DSAMS focal point for assistance. When a document is prepared and manpower id affected, you will obtain the necessary coordination's to ensure authorizations are in-line with the period of availability. For

more detail on this matter, please refer to SAF/IAX Policy Letter IAX 99012, 7 June 1999.

n. Program Management versus Other Services. In recent months, significant dialogue has transpired on the process of preparing, coordinating, and approving manpower requirements packages. The following information does not affect the process by which manpower requirements are requested, nor does it alleviate the need to process valid requests for manpower. Effectively immediately, any manpower expenditures reimbursed by the Customer on a pro-rata share must utilize Generic Code and MASL:

(R9Z) 079Z000THSERV

This applies whether the requirement in question is a complex multi-person, multi-country funded program (e.g., TCG/IEMP) or a simple one person, multi-country funded program.

o. Document Coordination. The responsibility to ensure that required reviews and coordination is met is delegated to the activity preparing the document. All documents must be reviewed and coordinated in accordance with AFMAN 16-101, Attachment 20. Each preparing activity should review their local coordination guidelines for compliance. While expedience is desired in many cases, no short cuts in review and coordination exist. Each required review and coordination serves a specific purpose towards gaining appropriate USAF consensus and approval on the FMS document being processed for offer to the Customer.

p. Line Item Descriptions. Each document processed must contain specific information and details in a Note entitled "LINE ITEM DESCRIPTIONS". These descriptions must provide the customer, and other readers, the ability to understand what is included in the cost of the line. Creating line item descriptions is the responsibility of the Line Manager. This information should be provided via DSAMS when any line item is created and priced.

q. Restated documents. The following statement must be included in the preamble of every "RESTATED" document processed within the Air Force:

This is a "RESTATED" document, which supercedes the document previously issued on (USG Signature Date). This version incorporates _____."

You must provide language explaining what, if any changes were made as a result of the restatement. The original preamble language must not be altered, unless the restatement is specifically targeted to the document's preamble.

Effective immediately, SAF/IAX will be performing systemic 'spot checks' on documents written at each document preparation site. Further, SAF/IAX will be conducting on-site audits up to four-times per year. These reviews and 'spot checks' are to ensure the quality, integrity, and content of USAF prepared and offered documents. With the implementation of DSAMS, it is increasingly important to ensure the quality of our documents remain superior and become as standardized as possible.

Effective immediately, all DSCA rejected documents must be reported to SAF/IAX for tracking. It is important these problems be recorded and root causes determined. In many cases, we believe sharing of such information will assist all document preparation sites avoid similar errors in the future. Further, we believe in some cases the rejections may not be valid and require discussions between SAF/IAX and DSCA to prevent further rejections based on the same merits.

Beginning 15 September 1999, all documents presented to DSCA for countersignature will utilize the attached form letter. The letter must be filled out completely and accurately. Any document presented to DSCA without the letter will be rejected. Also, you will provide, as part of the package to DSCA, a copy of the Purchaser's Reference (e.g., LOR), whether that is SAMR, PMR, or FMR minutes, an e-mail, FAX, or letter. DSCA will reject any document that excludes a copy of the Purchaser's Reference. The use of 'Internal Management Review' as a Purchaser's Reference is no longer valid. If the document is being processed to correct errors, reallocate funding, etc., some type of notification must be provided to the customer, which will then be used as the Purchaser's Reference. (For example, AFSAC/CMA FAX, dated 1 September 1999, SAF/IAP letter, dated 24 August 1999, AFSAT email, dated 15 August 1999.) If you are utilizing a telecon as your Purchaser's Reference, you will prepare a 'Memo for Record', which will accompany your package and serve as the Purchaser's Reference. You may e-mail my focal point to obtain an electronic copy of DSCA's cover letter.

Each document preparation site must provide a quality control focal to this office NLT 30 September 1999. This person must be available for travel and prepared for discussions on all matters concerning LOA document preparation quality control. It is our vision to utilize these individuals for the quick dissemination of changes to LOA document preparation. Official guidelines will be published utilizing our current processes.

Your immediate attention and appropriate dissemination of this information is appreciated. Our focal point for these matters is Patrick Fox, DSN 425-8985, commercial (703) 461-3463, or email patrick.fox@pentagon.af.mil.



TERRY BATES
Acting Chief, Policy Division
Deputy Under Secretary, Int'l Affairs

Attachments:

1. DSCA Memorandum, 18 August 1999
2. DSCA Sample Cover Letter

cc:

See Distribution



DEFENSE SECURITY COOPERATION AGENCY

WASHINGTON, DC 20301-2800

18 AUG 1999

In reply refer to:
I: 010365/99

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF THE ARMY
(INTERNATIONAL AFFAIRS)
ATTN: SAUS-IA-DSZ
DEPARTMENT OF THE ARMY

DIRECTOR, NAVY INTERNATIONAL PROGRAMS OFFICE
DEPARTMENT OF THE NAVY

DEPUTY UNDER SECRETARY OF THE AIR FORCE
(INTERNATIONAL AFFAIRS)
DEPARTMENT OF THE AIR FORCE

DIRECTOR, DEFENSE LOGISTICS AGENCY

DIRECTOR, NATIONAL IMAGERY AND MAPPING AGENCY

DIRECTOR, DEFENSE THREAT REDUCTION AGENCY

DEPUTY DIRECTOR FOR SECURITY ASSISTANCE,
DEFENSE FINANCE AND ACCOUNTING SERVICE -
DENVER CENTER

SUBJECT: Quality Review of Letter of Offer and Acceptance (LOA) Documents

The SAMM, paragraph 70102.D. states that implementing agencies (IAs) "...must ensure that adequate controls exist to assure mathematical and factual integrity, and completeness, of the LOA package." However, recent discussions with our foreign customers as well as inputs received as part of our strategic planning efforts indicate that the quality of LOAs, amendments, and modifications need some improvement. As part of our oversight role, we have been doing "spot checks" of LOA documents received in DSCA for countersignature and have compiled a list of common/recurring problems. This list is attached for your use in improving the quality of the documents processed by your agency. The items listed represent a wide range of problems. Some errors were serious enough to result in a rejection of the document(s) without countersignature. Other problems might not have caused a rejection, but should be noted so that future documents can be prepared correctly. We intend on publishing a similar list on a quarterly basis as dissemination of this information to all LOA-writing organizations should help reduce the number of repeat errors.

Review of the physical document is only the first step in improving LOA document quality. The detailed pricing used within the LOA must also be reviewed to ensure it is done

according to existing policies and procedures. As of Jul 99, the case development portion of the Defense Security Assistance Management System (DSAMS) has been implemented to all military departments. The use of this single system for LOA, amendment, and modification processing should improve our ability to ensure consistent application of LOA-writing policies and procedures---including pricing. A review of cases written using DSAMS, however, indicates that document preparers are not utilizing the pricing programs to the maximum extent possible. We need to be able to view a case on DSAMS and tell whether such charges as nonrecurring recoupment costs, logistics support charges, personnel costs, etc. have been included appropriately and whether waivers have been properly applied. This is impossible unless DSAMS pricing capabilities are fully utilized. Effective immediately, all cases (LOAs, amendments, and modifications) must be priced to the fullest extent possible using DSAMS. It is unacceptable to price off-line and enter only a base price in DSAMS. We intend to do periodic "spot checks" of DSAMS-written cases to ensure pricing is being done correctly.

The third step in our effort to raise the standard of these documents is to investigate the existing LOA document review/coordination processes to ensure they are adequate. While the SAMM mandates implementing agency coordination through the comptroller and legal counsel (SAMM, paragraph 70103.E) it does not dictate the full review that must be accomplished on each document. We are not sure what other quality checks are in-place at each document preparing agency (case management organization) to ensure the integrity and completeness of the LOA package as required by the SAMM. To assist us in our research of this process, we request that each agency that prepares LOA documents provide the following information:

- a. Point of contact for quality of LOA documents, including phone number and e-mail address.
- b. Summary of the review process currently conducted on LOA documents.
- c. List of coordination activities including both mandatory and discretionary ✓
(depending on the type of sale) coordination requirements.
- d. Summary of how information concerning LOA-writing policies/procedures is disseminated throughout your agency (i.e., When a reject occurs, how does your agency let other LOA-writers know so future documents do not repeat the error?).

A response by 20 Sep 99 would be appreciated. Once we have this information, we will be contacting your point of contact to set up a visit to discuss your review procedures in more detail. Our analysis of this information will help us provide policy/procedural guidance on how these quality reviews may be improved and standardized across all document preparing agencies.

Our revitalized attention to LOA document details, has resulted in some criticism from the military departments. Specifically, we have received complaints that DSCA is rejecting documents for problems in areas that have been delegated to the military departments for approval. As the DoD focal point for the security assistance/cooperation programs, DSCA is ultimately responsible for all aspects of foreign military sales (FMS). While we have delegated certain functions to the military departments and other implementing agencies, we reserve the

right to question/comment on all aspects of these programs and will direct actions as we believe necessary to ensure the best management of the overall FMS program. Our intent is not to interfere with your day-to-day management of these programs and our "spot checks" should not take the place of a thorough review of each document by the case management organization. We are hopeful that our combined efforts will ensure all documents provided to our foreign customers are accurate, consistent, and signature-worthy.

If you have any questions regarding LOA-writing policy and procedures, please contact Beth Baker, DSCA/PSD-PMD, (703) 604-6612 or e-mail: beth.baker@osd.pentagon.mil.



MICHAEL S. DAVISON, JR.
LIEUTENANT GENERAL, USA
DIRECTOR

Attachment
As stated

DSCA Quarterly Review
Letter of Offer and Acceptance (LOA), Amendment, and Modification Documents
August 1999

1.* Each line on an FMS case must include a Military Articles and Services List (MASL) line and MASL text description. The text descriptions used must match exactly those found in the DSCA 1200 System MASL. We are finding documents that either (1) have modified this description in some way; or (2) have deleted this description in its entirety. If the DSCA MASL description does not adequately describe what is being sold, additional information may be included on the document directly below the MASL text. DSAMS allows this as a free-form text entry. Any additional text entered must be consistent with the MASL description. For example, if the MASL reads "USG PERSONNEL ONLY," additional descriptive information cannot include the use of contractor personnel. If the MASL reads that it is for a "TECHNICAL ASSISTANCE TEAM (TAT)," additional descriptive information cannot state the line is for a "TECHNICAL ASSISTANCE FIELD TEAM (TAFT)." DSCA memorandum I-08186/99, 30 Jun 99, "Use of Military Articles and Services List (MASL) Lines on Letters of Offer and Acceptance (LOAs), Amendments, and Modifications," provides more detail on this issue.

2. The MASL line used on a case must accurately describe what is being sold. If there are instances where one MASL line is used and it is later discovered that a different MASL line would have been more appropriate, a modification should be processed to correct the line---even if delivery/performance has already occurred.

3. Some documents refer to supplemental conditions or notes associated with each specific line. Later amendments and modifications are processed which delete some of these notes. However, the note reference continues to appear with each line even though the note itself no longer exists. When notes are deleted, any references directing the reader to these notes must be deleted as well.

4.* Some documents include notes or supplemental conditions that address information already provided within the boilerplate terms and conditions. If these notes do not provide any new or clarifying information, they should not be included---repeating boilerplate is not necessary and could lead to problems if information is inconsistent in any way. If clarifying information is needed or if DSCA has authorized a deviation from boilerplate requirements, the notes should reference the boilerplate paragraph and state specifically how it is being interpreted/superseded for this unique case.

5. Sublines may be included with line items to allow further breakouts of items being sold. For sublines to be used, however, there must be at least 2 associated with a line. We are finding documents that include a subline "a" with no additional sublines.

6.* SAMM, paragraph 130503.B. requires that an estimated case closure date be included in defined order LOAs. When amendments or modifications are processed, this date should be updated to reflect a more accurate estimated date, if necessary---especially if this note is included on a page that will be part of the amendment or modification. We are reviewing amendments

and modifications which contain the estimated case closure date note/statement because it was part of a longer note or page that was being modified for another reason. Because the closure note is not being updated, it sometimes states that the case will be closed by a date that has already passed.

7.* SAMM, paragraph 70105.K. requires that all LOAs funded with Foreign Military Financing (FMF) must include the following note: "If terms of sale specify payment under a Foreign Military Financing (FMF) agreement between the Purchaser and DoD, Purchaser will pay to the USG, on a dependable undertaking basis, such costs as may be in excess of the amount funded by the FMF agreement." We are receiving LOAs with credit terms that do not include this note as required.

8.* We are finding cases that include notes or supplemental conditions that have nothing to do with what is being sold on the case. For example, a single line, defined order case included a note entitled "Blanket Order Requirement" explaining to the Purchaser how to requisition items. Since the case did not include any blanket order lines, this note was not appropriate.

9. DSCA memorandum I-08440/99, 28 Jun 99, "Implementation Instructions for New Foreign Military Sales (FMS) 2.5 Percent Administrative Charge," required that a note be included on all documents to identify the administrative percentage charged to each line. The referenced memorandum provided the exact format of the note. We are receiving documents that are using a different format. In order to ensure consistency and ease of review by others (including our foreign customers), the administrative surcharge note should match the format provided in our memorandum. Also, this note should include all lines on the case, not just those that are being modified or amended on the particular document being processed.

10.* SAMM paragraph 70104.B. mandates 85 day offer expiration dates (OEDs) for LOAs and amendments unless exceptions for longer review periods have been granted. The following country-level exceptions currently exist:

180 Days	Saudi Arabia
145 Days	Indonesia, Philippines
130 Days	Italy
120 Days	Portugal, Korea
115 Days	Egypt, Germany, Greece, Israel, Morocco, Pakistan, Spain, Yemen
100 Days	Turkey
85 Days	All Other Purchasers

The SAMM allows a short expiration date to be used on a case-by-case basis. When a short OED is used, a note of explanation must be included in the LOA to document why less than the normal time is given (i.e., to take advantage of contract opportunities, etc.). We are finding documents that are not including the correct number of days for review and are not including an explanatory note for short OEDs.

11.* SAMM, paragraph 130301.D. states that remarks may not be entered on FMS documents concerning the transfer of Purchaser funds from one case to another. This policy is reiterated in

paragraph 130402.E. The only SAMM exception to this policy is the language permitted on concurrent modifications (SAMM, paragraph 80403.B.3.). (NOTE: There is a formal exception between DSCA and Saudi Arabia which permits the use of other concurrent documents for Saudi Arabia.) We are receiving amendments and LOAs which refer to the transfer of funds between cases. Trying to do what would in effect be “concurrent amendment” or “concurrent amendment/LOA” scenarios is problematic because the customer may chose to sign one document and not the other. In compliance with the SAMM, statements about transfers should not be made unless the documents meet the requirements of paragraph 80403.B.3.

12.* Block (5) of the LOA, amendment, and modification documents include space for availability (in number of months) to be entered in parentheses. For defined order lines, this may either be a single number (i.e., “(5)”) or a range (i.e., “(1-12)”). For blanket order lines, the availability should be a “(-).” We are receiving LOA documents with availabilities of “(0).” This is not an acceptable entry---if items are scheduled to be delivered immediately, an availability of “(1)” should be used. We have also received documents that contain a condition code in this block. Condition code information should be included as part of the additional line description or included in the notes.

13. SAMM, paragraph 130104.C.2.b. requires that LOAs cite all of the appropriate Terms of Sale on the LOA. This paragraph goes on to state that if FMS Credit or MAP funds are used, a dollar breakout will be shown. This dollar breakout applies only to credit or grant-type funds. Any cash terms used (i.e., Cash Prior to Delivery, Dependable Undertaking, etc.) should not have a dollar value breakout. If cash and credit/grant terms appear on the same case, only the credit/grant terms should include a dollar breakout.

14.* When multiple sources of funding are used, more than one type of assistance code might be applicable. All type of assistance codes that apply must be recorded in block (5) of the LOA, amendment, or modification. We are receiving documents with a type of assistance code of 3 or 4 when the case is partially funded with credit funds. Type of assistance code "N" or "Z," as appropriate, should also be included in block (5) for these documents. We are also seeing proposed documents that use an incorrect source of supply and type of assistance code combination (i.e., source of supply "S" with a type of assistance code of "5"). These codes need to be compatible.

15.* Some documents are instructing the Purchaser to complete block (6) of the LOA with the appropriate Offer Release Code (ORC) information. Per the Letter of Offer and Acceptance Information included with each LOA, this information is to be entered by the US Government. Documents should include ORCs as appropriate prior to submittal for countersignature and subsequent customer review. Also, all lines that provide materiel of any kind should include an ORC and a Delivery Term Code (DTC) in blocks (6) and (7) respectively to identify responsibility for transportation. We are receiving documents for materiel lines that do not include this information. Lines for services should not include an ORC/DTC unless it is anticipated that some materiel will be delivered in direct support of the service being provided.

16. Each time a modification or amendment is processed on a case, the payment schedule should be evaluated and adjusted if appropriate (SAMM, paragraph 130401.F.2.(a)). When a

modification is processed and the dollar value of the case is increasing (i.e., for a price increase or other unilateral adjustment), the payment schedule must be adjusted to reflect payments to collect the increased amount. We are receiving modifications that show (correctly) the previous dollar value listed beside "Previous Payments Scheduled Through (date)." However the next entry shows (incorrectly) the revised value beside "Revised Payments Scheduled Through (same date)." When the dollar value is increasing, the modification must show a payment(s) for the additional amount.

Example (Incorrect):

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Previous Payments Scheduled Through (15 Sep 99)		\$70,000
Revised Payments Scheduled Through (15 Sep 99)		\$80,000

Example (Correct):

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Previous Payments Scheduled Through (15 Sep 99)		\$70,000
15 Dec 99	\$10,000	\$80,000

17.* SAMM, Table 801-4 requires that when lines are increasing or decreasing, the amendment or modification must state the reason for the change (i.e., scope change, price increase or decrease, etc.). Most of the documents we are receiving contain very little information in the document description section. These descriptions should be more informative and tell the customer (and other readers) exactly what changes are being made and why. Any changes to line values, terms of sale, notes, MASL lines, etc. should be documented in the description section and include a brief reason for the change. Information included in the description section should be detailed enough to allow us to evaluate which document (modification or amendment) is appropriate for the type of action(s) described.

* Indicates a problem that would cause the document to be rejected.

DEFENSE SECURITY COOPERATION AGENCY
Middle East, Asia, North Africa Directorate
Asia Pacific Region

February 26, 1999

MEMORANDUM FOR DIRECTOR DSCA

THROUGH: DEPUTY DIRECTOR DSCA
DIRECTOR MEAN
DEPUTY DIRECTOR ASIA PACIFIC REGION

SUBJECT: Processing and Tracking Letters of Request (LORs) for Letter of Offer and Acceptance (LOA) and Price & Availability (P&A) Requests/Quality Review of LOAs/Program Management Lines

This responds to your request for information regarding your concern that DSCA does not have a method for tracking and measuring performance of LORs for LOAs and P&A and that DSCA does not routinely quality control check every LOA. The following information provides the process/procedures currently in place for each area of concern and the fixes, if any, that are under development to improve the process.

LOR Receipt/Action/Tracking.

The SAMM (Section 70003, **Tab A**) lays out various methods for transmitting LORs and identifies the information copy recipients for LORs for both LOAs and P&A. LORs for LOAs and P&A for Significant Military Equipment (SME) require that the country request be transmitted to the appropriate DOD component by the U.S. Embassy with information copies to State PM, DSCA and the cognizant Unified Command. The SAMM further states that LORs for LOAs and P&A for non-SME can be transmitted by the country's authorized representative or SAO to the cognizant DOD component with info as above. The DSCA Country Program Directors (CPDs) generally receive LORs for SME as these requests prompt DSCA to solicit comments on the proposed purchase from the Joint Staff and OSD (A&T) through the Security Assistance Request memorandum. General practice is that the MILDEP begins preparation of the LOA while the comments are being generated. Upon receipt of the comments, DSCA advises the MILDEP if the comments are contrary to the LOR submitted, otherwise the process continues at the MILDEP. The CPDs however do not always receive copies of the LORs for non-SME and therefore do not track the requests. The CPDs track those LORs that have high visibility or are on the fast track due to customer requests, but LORs/LOAs are not tracked as a normal day-to-day business practice by the CPD either SME or non-SME. If this becomes a requirement, less countries per portfolio and additional CPDs will be required depending on the country program in order to intensively track country LORs.

FYI. In prior streamlining efforts, DSCA involvement in the front end of P&A or LOA requests was passed to the MILDEPS to cut processing time as DSCA will see the LOA in the end during the countersignature process. This is not necessarily true for P&A requests, DSCA may or may not see the request for P&A or the final P&A. In addition, streamlining efforts also established

the Automated Case Approval System (ACAS) to expedite DOS clearance for certain LOAs, amendments, and modifications when DOS clearance is required. ACAS cases are not routinely forwarded to the CPDs for final review prior to countersignature but sent directly to DOS thereby reducing the ability of the CPD to track the LOR/LOA. Cutting the CPD from the LOA review process also impacts the quality control aspect of LOA reviews. An example of this is with an Indonesia LOA. DSCA forwarded, through ACAS, a blanket training LOA for Indonesia for \$850K. The CPD was not aware of the LOR or LOA until DOS called to inquire about the type of training. Upon research, the CPD discovered a vast majority of the training was to be Special Forces/Special Operations training which State opposed and subsequently discussed with the Hill during an Indonesia briefing. This created significant turmoil due to sensitivities surrounding the Indonesia program to include numerous proposed legislative initiatives restricting the Indonesia FMS program. This is support for CPDs reviewing all LOAs regardless of their dollar value or importance. FYI. Comptroller RM will propose that ACAS be eliminated once DSAMS is online (See ACAS guidelines at **Tab B**).

For the tracking and performance metrics of LOR to LOA, the DSCA Comptroller's office maintains an LOA Performance Tracking System, through the 1200 system which, in theory, tracks LORs for LOAs from receipt of the LOR through LOA development, coordination and countersignature. This system is not a true picture of the actual performance as the Military Departments do not always input the LOR into the system since this begins the clock for LOA preparation. Routinely, LOAs are rejected by DSCA if they are not in the 1200 system. This system, however, only tracks LORs for LOAs and does not track P&A requests. In practice, however, this is the only formal tracking mechanism within DSCA for LORs. (Samples are attached at **Tab C**.)

Future capabilities through DSAMS will provide the capability for DSCA to track LORs from receipt to LOA acceptance. A recent DSAMS Reports presentation provided the sample reports that will provide a variety of information such as, but not limited to, Document Tracking, Document History, P&A Processing Times, Average Document Processing Times (LOR to MILDEP signature), Documents in Process, etc. This will provide DSCA with a readily available capability to track LORs to LOAs or P&As throughout DSCA. Currently, however, DSCA CPDs or Country Financial Directors do not have the DSAMS capability at their desk. The DSCA DSAMS User Group requested and is awaiting receipt of this capability.

Quality Review of LOAs.

SAMM, paragraph 70102.D. reads "Quality Control. IAs must ensure that adequate controls exist to assure mathematical and factual integrity, and completeness, of the LOA package." Each of the military departments has quality review/coordination procedures set-up to ensure their documents are reviewed for accuracy prior to submittal to DSCA for countersignature. (See **Tab D**.)

All documents coming to DSCA for countersignature are logged-in and tracked by COMPT-RM.

a. COMPT-RM does a quick cursory check of the documents. This review includes checks for correct MASL lines, basic format, terms of sale, existence in the 1200 system, inclusion of required documentation, Congressional reporting, etc. ACAS cases are

checked on-line every day for compliance before forwarding to State. COMPT-RM also serves as the "safety-net" (assures the category has been dealt with completely and correctly by coordinating points within the agency) in matters of:

- **Legislative Prohibitions**
- **Aircraft Sales to Central American countries**
- **Suspensions** (including Brooke/620(q) Sanctions)
- **STINGER Missiles**
- **Technical Data Packages**
- **Depleted Uranium** (Ammunition - we must identify the ammunition containing depleted uranium to State so they can fulfill their own reporting requirements)(began in 1987)
- **Program Content** notification on cases financed with FMF (began in 1987)
- **Logistics Support Change** (began in 1987)
- **Excess Defense Article (EDA)** reporting (began in 1991)
- **Permanent Change of Station (PCS) Personnel** (we must identify cases containing PCS to State so they can fulfill their own reporting requirements)
- **Industrial Offset Administrative Costs** (began in 1992)
- **Cash Flow** financed cases in excess of \$100 million reporting (began in 1993)

LOA Error Reports are sent to the MILDEPS on a monthly (hard-copy LOAs processed through the agency) and a quarterly (ACAS processed LOAs) basis. All these checks have taken the error rate from approximately 50% prior to 1985 to approximately 6% (hard-copy LOAs) and 7% (ACAS processed LOAs) in 1998.

b. Documents are then distributed throughout the agency for more specific reviews. Examples of these reviews include: country-unique restrictions, Program Content Notification, Excess Defense Articles (EDA) requirements, co-production, Central America aircraft reporting, offset implementation costs, Permanent Change of Station (PCS) personnel, Special Defense Acquisition Fund (SDAF), Foreign Assistance Act (FAA) programs, etc. Each individual is looking at the document from a unique perspective and generally focuses on the particular part that relates to their area of expertise.

c. The basic content of the document, as delegated in the SAMM, remains the responsibility of the MILDEPS. DSCA is not re-looking at detailed data--for example, DSCA does not review the pricing of individual items. The military department signature on the LOA is an indication that the document has "mathematical and factual integrity, and completeness."

The implementation of DSAMS for case writing may allow us more oversight into the preparation and content of FMS cases. Through programming requirements, we should be able to better ensure cases are written according to format standards as required by the SAMM and priced in accordance with the Financial Management Regulation (FMR). We will need to work closely with the DSAMS PMO to ensure the system (1) while allowing flexibility, helps us ensure compliance by automatically editing certain fields; and (2) remains current with any document policy changes that are made. The SAMM needs to be updated to reflect the format changes approved during the DSAMS standardization meetings.

DSCA does not have the manning necessary to do a quality review check (this includes a review of format standards) on every LOA document submitted for countersignature. This would be redundant to what the military departments should already be doing and would add days to the already time-consuming LOA processing schedule. Spot-checks by appropriate policy personnel, however, might be a way to ensure current formats, regulations, and policies are being followed. COMPT-RM could gather sample documents throughout the year. MEAN-AP (general policy/procedures) and COMPT-FM (financial pricing policy) could review these sample documents in detail and issue a memorandum to the military departments identifying those areas where improvements are needed (i.e., if we are seeing recurring problems on documents, areas where standardization could be better, etc.). These quarterly reviews should be distributed throughout the Agency to ensure everyone reviews/rejects documents consistently.

Program Management Lines.

The SAMM, paragraph 70201.A.2. reads "The inclusion of program management lines in selected LOAs must be justified to and approved by, the *Director of SA of the IA*, or designee." (See **Tab E**) The Financial Management Regulation (FMR), section 0718 states that "*DoD Components* shall assure that each type of cost is allocated only once and only on one basis to an FMS Case." (See **Tab F**) Since the SAMM and the FMR delegate this responsibility to the military departments, there is currently no requirement for DSCA (other than through our oversight function) to re-check or verify these costs. While program management lines may be questioned by some DSCA action officers (both country program and country finance managers), this is on an ad-hoc basis and most likely limited to those lines that are obviously suspect.

SAMM, Section 702 provides some broad guidelines about what activities should be covered by program management costs and those that should be considered paid for within the administrative surcharge. This section also identifies the types of LOAs that are eligible/not eligible for program management lines. The FMR provides a "Case Funding Matrix" which identifies very generic functions and the appropriate sources of funding (administrative budget, hardware/services line, or program management). Additional guidance is provided in the FMS Budget Execution Plan information provided to the Services during the budget call (See **Tab G**). This document includes lists of specific functions which may be included in administrative budget requests as well as functions excluded from administrative funding (and therefore eligible for case funding--either through program management or services lines).

The guidance found in the regulations cited above is very general in nature and lends itself to multiple interpretations. The information provided with the budget call is not regulatory in nature, and is also open to different interpretations by the military departments. This vagueness in the guidance, while allowing flexibility, means that the military departments are most likely not using program management lines consistently. With declining administrative resources in recent years there has been a general thought that there may be a temptation for the military departments to use program management lines as an alternative funding source. A study was done by COMPT in 1995 to analyze the trend in case/program management lines. The executive summary is attached to this paper (See **Tab H**). While the study was inconclusive, it did recommend continued monitoring to determine whether the relative percentage of funds on case/program management lines was increasing when compared to case values.

Recent cases submitted by the US Coast Guard for ship transfers include a significant amount of program management funds--it is not clear whether these relatively high costs represent abuses or whether case managers are not clear on what is appropriate for coverage in administrative budget or case services lines or program management funding. Better definitions, training, and more monitoring may all be needed.

a. SAF/IAX has submitted a reinvention lab proposal for our review entitled "Air Force Outsourcing Initiative." The title of this proposal is somewhat misleading---while it does discuss the possibility of using outside resources to perform certain functions, the real thrust of the paper appears to be re-defining what functions should be covered under program management versus those provided as part of the administrative surcharge. Under the Air Force scenario, many functions currently allocated on the administrative side (i.e., case closure, travel, etc.) would be included on the case. While there is some merit in trying to ensure functions performed specifically for a case are paid for by that case, there is also a danger. The accounting and tracking mechanisms that might be necessary to put this type of cost accounting into place might be more manpower intensive and costly to the customer than the present system. This would be especially felt by small countries with low dollar value cases.

b. It would be appropriate for DSCA to lead a tri-Service team to review the guidelines for program management/case/administrative funded functions and make changes as necessary to make the definitions more clear and more realistic with today's environment. We need to ensure that any new guidelines are (1) clear as to funding source; (2) published in the appropriate regulations; (3) applied consistently across the Services; and (4) not seen by our foreign customers as a tactic to use case funds to cover costs we have promised to cover using the 3 percent administrative surcharge. The team should also ensure training is offered and a plan to monitor (perhaps on a spot-check basis) is established to ensure compliance.

Conclusions and Recommendations:

Most of the responsibility for case quality control is delegated to the Military Departments. This is appropriate due to their detailed knowledge concerning the nuts and bolts of the individual document(s). If they are not satisfying this responsibility, there are two options: (1) Have DSCA conduct a document-by-document, line-by-line review of each document prior to countersignature; or (2) Establish stricter standards for the military departments and make sure they are enforced.

Number (1) is not a desirable option for several reasons. DSCA CPD and CFDs are responsible for oversight of the total Security Assistance program and looking at "big picture" issues. Requiring detailed document reviews in areas delegated to the military departments will take our CPDs and CFMs away from the larger issues in their portfolios and remove them from the oversight functions. Further, in this era of streamlining and downsizing, it does not make good business sense to develop redundant processes--as would be required if DSCA took on the task of re-doing actions already done by the military departments, not to mention the additional manpower resources necessary to implement this option.

Number (2) is a more reasonable option and has several possibilities:

a. DSCA could review the quality control procedures set-up by each military department and identify areas that need tightening. We could identify particular areas of concern (i.e., pricing, use of program management lines, etc.) and provide stricter guidelines to follow as the MILDEP's quality control personnel review the documents.

b. DSCA could spot-check documents to ensure compliance with all policies, regulations, etc. DSCA could conduct random sample reviews each quarter and identify consistent problem areas to forward to the MILDEPS for corrective action. We could also ensure DISAM is aware of the problem areas and training could emphasize key issues.

c. When DSAMS is fully implemented, it should help ensure compliance with pricing and format standards. The key here will be for the military departments to ensure complete use of DSAMS' capabilities. For example, the pricing programs within DSAMS follow the Financial Management Regulation requirements and, if used would help ensure appropriate surcharges are included as well as identifying any applicable waivers. The tracking and milestone features should ease the burden of tracking LORs and other key case events. For flexibility reasons, however, not all of the key fields are mandatory entries within DSAMS. For example, if pricing is accomplished off-line and a total price inserted, we are unable to judge if nonrecurring costs, contract administrative services, and other charges have been applied appropriately. LOR information must be entered completely and in a timely manner if we are to be able to see all information through the system. Again, the MILDEPS must enforce use of ALL DSAMS capabilities if we hope to use the system to help us in these areas.

In summary, there are problems in the area of quality control, LOR tracking, and program management--including format standards, tracking of LORs and proper use of program management lines. The burden for improving this quality, however, should not rest solely in DSCA. We must devise a method to ensure functions delegated to the military departments are being accomplished as desired without resorting to time-consuming, redundant reviews that would force higher DSCA manning requirements and take our focus away from the larger issues.

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Attachments
as stated

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